THE ECONOMICS OF THE COUNTER-REFORMATION: INCUMBENT-FIRM REACTION TO MARKET ENTRY

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The Catholic Church reacted to the Protestant Reformation by taking on the defensive posture of an incumbent-firm monopoly fighting to survive in the face of new competition. Contemporary firms typically respond to rival entry by rewriting their corporate charter. So did the medieval Catholic Church. But the Council of Trent failed as a reorganization plan because to keep economic rents flowing as before, it left intact the distribution of powers and property rights among the governing body of pope and cardinals—thus demonstrating that entrenched economic interests are powerful inducements to behavior, even in spiritual institutions. (*JEL* N00, D2, D4, D72, P16)

> It is to be desired that those who assume the episcopal office know what are their duties, and understand that they have been called not for their own convenience, not for riches or luxury, but to labors and cares for the glory of God.
> —*The Canons and Decrees of the Council of Trent* (Session 25, chapter 1)
>
> [Church] Reform ... usually meant tightening up the rules for collecting money.
> —Denys Hay (1977, 39)

I. INTRODUCTION

Although it has not been universally applauded, the extension of economics into new domains of social behavior has become increasingly common. Economic tools have now been applied to areas of human behavior as diverse as art, culture, marriage, and sumo wrestling. For some economists, one of the most intriguing of these "new" realms of inquiry is the economics of religion, a subject that relies on principles of rational behavior, interest-group analysis, public-choice and game theory to explain church membership as well as changes in religious institutions. Azzi and Ehrenberg (1975) advanced one of the earliest studies in this vein. More recently, Iannaccone (1998) enriched and continued the tradition. Our own previous contributions to this burgeoning body of literature have focused on the economics of the medieval church. In earlier studies, Ekelund et al. (1989, 1992) treated the medieval church as an economic firm to better understand the formation of religious doctrine; Ekelund et al. (1996) analyzed the industrial organization and rent-seeking practices of the medieval church; and Ekelund et al. (2002) explored the economics of the Protestant Reformation.

From a historical perspective the landmark change in religious institutions was the Protestant Reformation of the sixteenth century, which eventually produced permanent changes in religious markets. In a previous study, Ekelund and colleagues (2002) analyzed this event as a form of market entry and showed that the Protestant Reformation (1517–1555) was a consequence of both demand-side and supply-side factors. This article takes the next logical step—it seeks to analyze the historical response to competitive entry of an incumbent firm, the medieval Catholic Church, by explicit reference to what historians and scholars refer to as the Counter-Reformation, or, alternatively, the Catholic Reformation (1555–1648).[1]

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1. In implying that the Reformation and Counter-Reformation were sequential episodes, we rely on a stylized version of history. Some modern historians, such as Reinhard (1989, 384) hold that the terms *Reformation* and *Counter-Reformation* are not mutually exclusive in either their temporal or their material aspects.

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We maintain that as a dominant firm the Roman Catholic Church responded to market entry in a way predicted by economic theory. After Protestantism gained a foothold in the religious market, the Catholic Church faced a residual demand curve that was composed of less elastic demanders. Consequently, it (a) lowered the average price of providing the *Z*-good "religious services"; (b) engaged in vigorous competition in the neighborhood of the new entrant's "price"; (c) attempted to raise rivals' marginal costs to move demanders back to Catholicism; and (d) tried to boost demand in its "retail" market, while simultaneously protecting and even intensifying its rent-seeking practices in its "wholesale" market.[2] In sum, the Roman Catholic Church responded to Protestant entry and to the encroaching "age of reason" with violence and nominal (rather than fundamental) doctrinal alterations.

II. THE ECONOMICS OF THE REFORMATION REVISITED

After centuries of Roman persecution, the Catholic Church entered an era of ascendancy, during which it strove to achieve dominance over other world religions. In this early era, church doctrine was disparate and unsettled, and church management was loose and geographically dispersed. The Edict of Milan (313 A.D.) bestowed primary authority over church matters to bishops, who supervised the priests and monks that operated at the "retail" level. In this phase of operations the pope was simply the bishop of Rome, considered as first among equals in church governance. On the moral front, the concept of sinful behavior was largely a matter of particularized interpretation. Early penitential doctrines—directives concerning faith and morals issued by prelates and bishops—were often incongruent. Although probably effective at the local level, the quasi-monopoly position of the Roman Catholic Church was weak and incomplete on a global level.[3] Importantly, the bishop of Rome did not have the power to monitor behavior at the lower administrative levels of the church, nor did he have the power to enforce papal decisions. In fact, secular powers persistently challenged the Church for important appointment authority involving bishops and abbots.

By the twelfth century the religious landscape had changed dramatically, due in large measure to a papal revolution that allowed the bishop of Rome to transcend his fellow bishops in power and authority. Pope Gregory VII reorganized the Catholic Church under the auspices of the Concordat of Worms in 1122, which established the pope as the supreme judicial and legislative authority within the Catholic Church. Thereafter, all property rights of the Church came under the pope's control. All testamentary cases were adjudicable in Rome, giving the pope control over 30–40% of the cultivated land in Europe. In addition, the twelfth-century Church was able to temporarily wrest control over ecclesiastical and monastic appointments from civil authorities (i.e., the so-called investiture controversy). The new ascendancy of the Church was made possible by a number of factors, among them decreased costs of transportation and communication, the steady Christianization of the Low Countries and Germany, and the weakness of monarchical governments throughout Europe, caused by the rise of local fiefdoms.

The result, which Ekelund et al. (1996) stressed, was the establishment of the Catholic Church as a dominant firm in the religious market of Europe between the twelfth and fourteenth centuries. The medieval Church became, for all practical purposes, a vertically integrated, M-form corporation, with a long-term planning horizon (in contrast to the regional and monarchical governments of the time). This vertically integrated firm evolved into a powerful, rent-seeking monopoly, exercising upstream monitoring, auditing and rule-setting functions, and operating downstream retail divisions that sold assurances of eternal salvation and other religious services. Some of the major monopoly "projects" undertaken by the medieval church at this time included the following:

- The establishment of the papal camera or treasury, which was empowered to collect rents from downstream levels of administration and to act as papal enforcer, carrying

2. Although these terms are conventional in business and economics, their application to a religious institution is not. Hence, we note that by *retail* we mean direct sales to church customers, whereas by *wholesale* we refer to the structure of internal transactions of the institutional church, such as dealings between bishops and lower clergy.

3. The issue of abortion is a good example. The seventh-century Irish Penitential of Theodore suggests that abortion is not murder until after 40 days, a rule in obvious conflict with later church proclamations. See McNeill and Gamer (1990, 197).

out inspections with powers of excommunication and interdict against malfeasors.

- Upstream rule setting and adjudication in such matters as capital market functioning (e.g., usury laws) and marriage markets (virtually taking over the marriage market from civil authorities);
- The creation and manipulation of doctrine at the upstream level to increase Church revenues by price discrimination. Among these actions were the virtual invention of Purgatory (which has no explicit biblical basis), the requirement of auricular confession to a priest, and the creation of an indulgence system whereby payments and other sacrifices could reduce the penitential time served by individuals in Purgatory.
- The launching, in the twelfth century, of Crusades to the Holy Land and against heretics to defend the credibility of the Catholic Church's product(s).

By mid-sixteenth century, as one scholar put it, the Church had "sheared too much wool from the sheep." Its doctrinal manipulations, complex reward and punishment schemes, and monopoly price discrimination combined to push certain consumers to the limits of their demands for the Church's product. Ongoing capture of greater amounts of consumer surplus by the Roman Catholic Church made market entry by rival firms feasible because elastic demanders—those paying high prices with little or no consumer surplus—were inclined to switch religions. Because there was a geographic component to Protestantism, supply-side factors also came into play. On the one hand, the new religion faced greater obstacles in societies that practiced primogeniture, which tended to concentrate wealth in fewer hands and encourage rent-seeking behavior from top to bottom (i.e., among nobles and churchmen alike). On the other, its inroads into the religious marketplace was facilitated in societies that did not practice primogeniture, or in developing urban areas, where wealth was more fluid and less concentrated, and where individual economic opportunity was greater. Ekelund et al. (2002) demonstrated that for the most part, countries that enforced primogeniture laws retained their rent-seeking practices and remained within the fold of the Catholic Church, whereas those that did not embraced Protestantism. The latter countries experienced rapid urbanization, greater individual accessibility to economic markets and opportunities, and wider dispersion of property and wealth.

Protestants invaded the medieval market for religion by launching a relatively simple strategy that owed its success in part to the economic excesses of the medieval Catholic Church. Protestant sects gained members by making "all-or-none" offers using an uncomplicated pricing scheme that substituted for the highly discriminatory prices of the dominant firm. They were aided by historical, mostly exogenous factors, such as the absence of institutional arrangements that concentrated wealth and the presence of others that dispersed it. Once entry occurred, the Catholic Church could be expected to react in typical fashion. Therefore the questions that we pose in this article are the following: What were the effects of market entry on the incumbent firm? How did the medieval Catholic Church react to the new kinds of competition, doctrinally and otherwise?

III. AN ECONOMIC THEORY OF THE COUNTER-REFORMATION

A simple model clarifies our theory of the Counter-Reformation and underscores the (testable) economic implications of Protestantism's entry into the medieval religious market. In Figure 1 let AD represent the market demand for church services. The vertical axis represents the full price of religious participation, in the form of money and in-kind contributions for a Z-good that contains one large component that we have elsewhere labeled assurances of eternal salvation.[4] MC_c and MC_p represent the marginal production cost of two religions, Catholicism and Protestantism, which at least initially are assumed equal to each other. Assume that the medieval Roman Catholic Church practiced perfect price discrimination before Protestant entry.[5] The entire area under the demand curve prior to entry therefore represents potential consumers' surplus. Under the circumstances of first-degree price discrimination, all consumer surplus is extracted, putting *all* consumers at

4. Ekelund and Tollison (2003) attempt to refine the definition of the Z-good "religious services" in a historio-economic analysis of magic, myth, and religion.

5. The fact that the medieval Catholic Church practiced price discrimination is well established, for example, in its price lists for papal indulgences, and in its one-on-one confrontations in the confessional, as demonstrated in Ekelund et al. (2002).

FIGURE 1
The Market for Religious Service

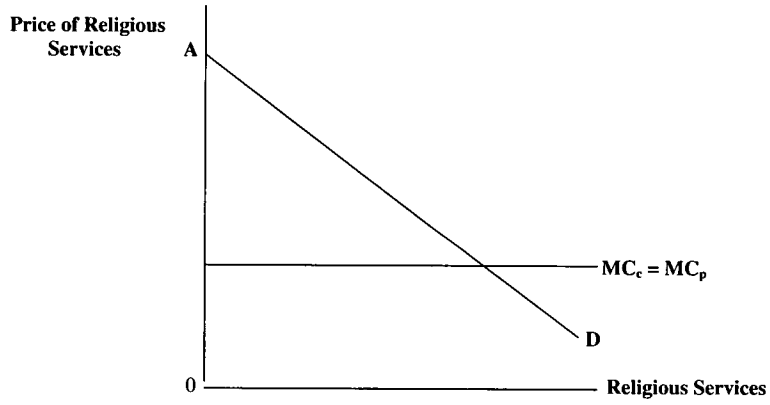
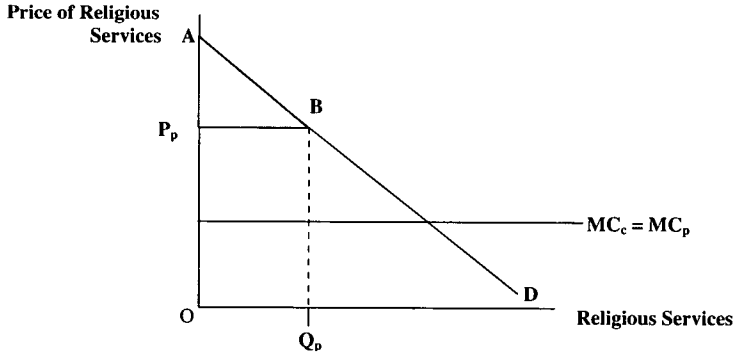


FIGURE 2
Perfect Price Discrimination and Protestant Entry



the margin of defection. The largest donors of consumer surplus are those purchasers in the upper reaches of the demand curve.

Under favorable conditions, entry takes place. Assume that Protestants enter as single-price monopolists charging P_p and selling Q_p of religious services, as shown in Figure 2.[6] Those demanders paying the largest amount of consumer surplus for religious services—those in the upper reaches of the demand curve—would tend to switch. Trades no longer take place at prices between A and B. This means that OQ_p demanders will likely switch from Catholicism to Protestantism, leaving BD as the *residual demand curve* for Catholicism.[7] Whether the Catholic Church

6. Here we assume that Protestantism entered the religion market as a rival monopoly-like firm charging a simple (but different) monopoly price. Its membership (entry) price was cheaper, but not free—a 10% biblical tithe took the place of the many exactions of the Roman Church. Protestant entry involved, indeed initially required, the use of political power to legitimize the new religions. In 1517 Luther published his Ninety-Five Theses. By 1530, after the failure of Emperor Charles V to restore Catholic orthodoxy in Germany, Lutheran princes united in a league against the emperor and Catholic princes. The freedom and the very lives of Luther and Calvin depended on the protection of secular rulers, but, as both discovered, political power can be used against particular religions as well. Nevertheless, according to Hopfl (1991, xviii–xix), both Calvin and Luther espoused action by civil authorities to police "idolatry, sacrilege, blasphemy and other public affronts to religion." This meant oppression of Roman Catholicism ("popery") and Anabaptism and other sectarian dissent within emerging Protestantism. Furthermore, Luther's characterization of the polity was "the sword" and Calvin's was "the bridle." Around such theories, monopoly or quasi-monopoly religions formed in Scotland, Scandinavia, more than half of Germany, large sections of the Netherlands and Switzerland, and areas of Central Europe. Henry VIII, of course, declared religious monopoly in England as well.

7. By analogy to contemporary deregulatory practice (e.g., the breakup of AT&T into regional Bells; or competitive/technological incursions into the postal monopoly by private couriers, such as Federal Express, or by new technology, such as e-mail), when Protestant sects enter as

continues to price discriminate or opts for a simple monopoly price, it is clear that *average price* will fall in response to entry.[8] Note that this result would be obtained whether the Catholic Church continues to perfectly price discriminate along the residual demand curve or whether it chooses to charge a simple monopoly price. A residual marginal revenue curve (not shown in Figure 2) may be drawn originating from point B in Figure 2. Simple monopoly price would be established on the demand curve at the point where the residual marginal revenue curve intersects $MC_c = MC_p$—at a point lower than B, the Protestant entry price. This provides the ***first*** testable implication of our theory.

A ***second*** testable implication is that competition will be most intense in the price region near P_p. Such competition might be expected even in areas that do not finally settle as Protestant. For example, some Spanish and French aristocrats located in the upper regions of demand curve AD may have wished to break away from the Catholic Church but were prevented from defecting by institutional impediments, such as primogeniture laws. Essentially, in areas where Catholics and Protestants were geographically contiguous, their prices and rent extractions would have been similar. This results because a Tiebout-like competition would have made these local economies quite alike in their characteristics. Thus, in certain instances, Catholic areas should exhibit the same economic growth and institutional characteristics as Protestant areas. This, of course, confounds the popular economic interpretation of the effect of Protestantism on economic growth (see notes 8 and 14).

A ***third*** testable implication is that postentry, the Catholic Church will attempt to extend its own demand curve by increasing the marginal cost of Protestant churches (MC_p in Figure 2). To be taken, this action must be cost-effective, that is, the marginal revenue of an action must be greater than the attendant marginal costs. For example, the organized suppression of defectors by Church-sponsored inquisitions must generate more revenue than costs. We expect more violence where the marginal product of violence is greater.

A ***fourth*** testable implication is that, as with any imperfectly competitive firm, the incumbent firm will try to develop policies (e.g., advertising) that will shift BD to the right and make its demand more inelastic. Several strategies suggest themselves here: correcting abuses within the medieval Catholic Church, the development of alternative religious orders that are more resistant to corruption charges such as those levied against the Catholic Church by Protestant reformers, and devoting more church resources to charitable endeavors or other means of social support.[9]

Did the medieval Catholic Church respond to entry by employing strategems that are predictable in light of the theory outlined? We looked for evidence to support our thesis in the historical documents of the Reformation era and in the work of respected historians who have specialized in this field. Historical evidence shows that the medieval church responded to market entry on two different levels. On the retail side it took actions to raise and transform product demand; on the wholesale side, the organizational structure of the Catholic Church acted as an impediment to meaningful reform.

IV. RETAIL ADJUSTMENTS BY THE MEDIEVAL CHURCH

On the retail side, the medieval Catholic Church reacted to competitive entry according to the dictates of economic theory, as outlined.

Measures by the Incumbent Firm to Lower its Retail Price

The canons and decrees of the Council of Trent (1545–1563) speak clearly to various attempts by the Catholic Church to lower the price (or increase the quality) of its services.[10]

competitors, the price of religious services should fall to industry marginal costs. This would apply to a competitive supply of religion. In this context, however, we are here considering what amounts to spatial monopoly in the supply of religious services.

8. There is no welfare loss due to Protestant entry at the tithe price P_p in Figure 2. Because the Catholic Church continued to perfectly price discriminate below P_p, a competitive amount of religious services were provided.

9. Yet a fifth implication of our theory is that the savings in consumer surplus from entry (ABP_p in Figure 2) meant that rent-seeking investment in churches fell by the recouped triangle and was freed up for productive investment in the private sector, spurring economic growth. Weber (1930) argued from a demand-side preferences theory in analyzing the emergence of capitalism. We do not develop our supply-side analysis here but work toward that end in Ekelund et al. (2003).

10. In our analysis, measures to raise the quality of the Church's product are treated as analogous to price reductions, which roughly comports with economic theory.

TABLE 1
Decrees of the Council of Trent

Type of Decree	No. Decrees
Regulation of benefices	19
Duties/authority of bishops	18
Governance of monasteries and convents	16
Competence of clergy	15
Duties/authority of clergy	12
Marriage regulations	8
Visitation requirements of bishops	5
Ownership of property by churchmen	5
Instruction of the faithful	5
Revenue-sharing among churches	4
Residence requirements of bishops	4
Establishment/maintenance of churches	4
Measures to reduce simony	3
Rules against concubinage	2
Rules against nepotism	2
Rules of ordination	2
Election of bishops and cardinals	1

The number of decrees on each subject of reform may be taken as a rough indication of the perceived severity of the problem (see Table 1). With this in mind, the largest number of decrees was directed at reforming the rules of conduct of the episcopate, including the regulation of benefices.[11] The council issued decrees limiting the conditions and number of benefices that each bishop could hold (7th:III–VII: *56–58*; 14th:XI:*113*; 24th:XIV:*204–5*; 24th: XVII:*206*; 25th:V:*237*; 25th:VII:*239*); establishing residency requirements for bishops and clergy (6th:I–III:*46–49*; 23rd:I:*164–66*); requiring bishops to exercise closer supervision over priests and monks (6th:IV:*49*; 21st:VIII:*141*; 24th:IX:*198–99*); establishing minimum competency qualifications of clergy (7th:I:*55*; 7th:XIII:*60*; 13th:IV:*83*; 14th:VII:*111*; 22nd:II: *153–54*; 23rd:II:*167*; 23rd:IV-VII:*167–69*; 23rd:XI–XVI:*171–74*; 24th:XII:*200–2*); renewing pious living precepts of priests, monks, and nuns (22nd:I:*152–53*; 22nd:VIII:*156–57*; 25th:I:*217–18*; 25th:X:*224*); establishing procedural norms for the election of bishops and cardinals (24th:I:*190–92*); and establishing penalties for concubinage and other public offenses (24th:VIII:*188*; 25th:XIV:*226*; 25th: XIV:*246–48*). The goal of these various decrees seems to have been, in the main, to establish a kindler and gentler clergy—a way of lowering the cost to the faithful of membership in the Catholic Church.[12]

Another problem that the council addressed was financial abuse (the chief lightning rod for Luther's attack). In an apparent attempt to outlaw simony and curb other financial abuses, the council issued decrees prohibiting bishops from selling rights and offices (14th:XII:*113*; 2nd:I:*136*; 25th: IX:*241*), eliminating charges for selling certain Church services (e.g., dispensations) (25th:XVIII:*250–51*), prohibiting certain leases of Church property (25th:XI:*245*), enjoining cardinals and prelates from enriching their families from the property of the Church (25th:I:*232–33*), abolishing the office of questor of alms (which was rife with abuse); requiring that clerics be compelled to pay what they owe (7th:XIV:*60–61*), restricting abuse of wills and bequests by opportunistic clergy (22nd:VI:*156*), and establishing restrictions on the conversions

11. The council issued decrees concerning doctrine and decrees concerning reform. The former attempted to affirm and clarify existing dogma, the latter to specify the nature of proposed changes in church practices. For obvious reasons, this study concentrates on the latter. The standard authority on the proceedings of the Council of Trent is *The Canons and Decrees of the Council of Trent* (1978). The citation practice we followed notes the session, chapter, and page numbers, so that a citation such as (5th:I:*24–26*) indicates a reform decree that can be found in the Fifth Session, Chapter I, pages 24–26 of the Schroeder rendition of *The Canons and Decrees of the Council of Trent*.

12. This spirit is demonstrated in the following passage from Session 13, Chapter 1:

> The ... holy Council of Trent, lawfully assembled in the Holy Ghost, ... having in mind to decide some things that relate to the jurisdiction of bishops, in order that ... they may the more willingly reside in the churches committed to them the more easily and conveniently they may be able to rule and keep in uprightness of life and of morals those subject to them, deems it appropriate in the first place to admonish them to bear in mind that they are shepherds and not oppressors and that they ought so to preside over those subject to them as not to lord it over them, but to love them as children and brethren and to strive by exhortation and admonition to deter them from what is unlawful, that they may not be obliged, should they transgress, to coerce them by due punishments. In regard to those, however, who should happen to sin through human frailty, that command of the Apostle is to be observed, that they reprove, entreat, rebuke them in all kindness and patience, since benevolence toward those to be corrected often effects more than severity, exhortation more than threat, and charity more than force.

of benefices (25th:XVI:249). Through its general decrees, moreover, the church tried to institute quality control over the doctrine of Purgatory and the veneration of sacred relics, and to abolish "all evil traffic" in indulgences (25th:XXI:*253*).

Certain reforms may be collected under the advertising rubric. In response to the Protestant threat, the Catholic Church sought to raise awareness of its members to the benefits of its product. The Council of Trent issued decrees establishing lectureships in Scripture and the liberal arts (5th:I:*24–26*), imposing duties of preaching and teaching on the clergy (5th:II:*27–28*; 24th:IV:*195–96*; 24th:VII:*197–98*), and providing detailed directions for the establishment of seminaries (23rd:XVIII:*175–79*).

Finally, the Catholic Church issued decrees to improve financial assistance to poor parishes (24th:XV:*205*; 25th:XII), to soften some of its punishments, such as the use of excommunication (25th:III:*235–36*), and to remove certain impediments to marriage, which had the effect of lowering transaction costs for the betrothed (24th:III-V:*186–87*).

Intense Competition around the Entrant's Price

The fact that competition was intense around entry price is demonstrable through a study of contiguous areas in which Protestantism took root on the one hand and Catholicism was maintained on the other.[13] There was more vigorous competition where Catholic and Protestant areas were contiguous, as in Belgium and Germany, rather than in Spain or Italy, which did not have a contiguous Protestant neighbor. For example, when usury was eliminated in Protestant countries, Catholic areas contiguous to the new Protestant states were forced to borrow at competitive market interest rates. Another apparent anomaly is that it was not the German Catholic cities that were growing between 1500 and 1650 but those outside the Rhineland. Bairoch et al. (1988) have shown that the two Belgian cities of Ghent and Bruges were among the largest in Europe in 1500, but it is noteworthy that Belgium shares borders with both Protestant Germany and the Netherlands. Inasmuch as Ghent retained a place among Europe's 30 largest cities in 1650 it obviously remained relatively prosperous. In those areas contiguous to emergent capitalism, where this and other sorts of competition existed,[14] economic growth and institutional developments followed a similar pattern.[15]

Measures by the Incumbent Firm to Raise Rivals' Costs

In certain respects, the medieval Catholic Church's reaction to Protestant entry was analogous to the reaction of business firms to regulated competition or to the tendency of special interests to seek protective trade legislation. In such cases, incumbent firms seek to protect their market power by raising rivals' costs. In the medieval context, the rivals were, on the one hand, the new Protestant sects (Lutherans, Anglicans, Calvinists, etc.), and on the other, the new heretics' from the scientific and artistic communities. The medieval Catholic Church viewed many Renaissance scientists and artists as dangerous threats to its authority and to the integrity of preserved Scripture and established doctrine. Two prominent historical episodes that demonstrate the incumbent-firm strategy of the Catholic Church were its conduct in the Thirty Years War and the institution of the Holy Office.

The Thirty Years War. On becoming king, Ferdinand of Bohemia swore to uphold the right of Bohemian Protestants to practice their religion, but he reneged on his promise. The Bohemians reacted violently, accosting three Catholic officials and throwing them from a window into a dung heap. This episode, the so-called Defenestration of Prague, signaled the beginning of the Thirty Years War, which eventually drew almost every European state into its orbit. The conflict

13. It must be acknowledged that competition *within* Christianity existed for 800 years between the Roman church and the Eastern Orthodox church, where both groups tried to attract adherents, mainly in the Balkans. However, here we are attempting to focus on competition between Catholicism and the newly emergent religion of Protestantism.

14. See Nolan and Nolan (1989, 87) for additional evidence in support of the inference that Catholics were trying to lure former members back to the Church by adding more religious shrines and labor-free "feast days" in Catholic Germany during the post-Reformation era.

15. This is, of course, a phenomenon that has been cited as a limitation of Weber's hypothesis. A supply-side view of the emergence of Protestantism does not undermine his basic idea.

became increasingly bloody as political and economic motives joined the religious one of keeping Germany and other countries within the Protestant fold. Ferdinand sought to quell the rebellion by vigorously forcing Catholicism on the rebels. According to Blum et al. (1966, 208), "Those who tried to keep their Protestant faith had to pay special heavy taxes and have soldiers quartered in their homes." Ferdinand also confiscated lands of the Protestant nobility, retaking half of Bohemia. Alarmed by the gathering power of the Hapsburg dynasty, Sweden and (Catholic) Bourbon France entered the fray on the side of Protestantism. In the case of France, this showed how easily religion could be subjugated to politics. The last phase of the conflict (1635–1648) became a dynastic struggle between the Bourbons of France on the one hand and the Hapsburgs of Austria and Spain on the other. Eventually, the Peace of Westphalia (1648) established the sovereignty of the German princes and thereby signaled victory for German Protestantism and defeat for the Catholic Reformation (by quashing the imperial ambitions of the Hapsburgs in Germany).

The Holy Office. After the Council of Trent, the Vatican created a Holy Office (in 1559) to coordinate and direct efforts at repression and censorship toward the new heretics. The chief form of repression was the Inquisition, whereas the main form of censorship was the Index of Forbidden Books. The use of inquisition by the Catholic Church was not new (having been invoked as early as the thirteenth century), but the practice took on new vigor after 1559 in response to the Protestant threat. Early inquisitions were directed at common heresies (e.g., Catharism, Waldensianism, etc.) and at Judaism and Islam. Later, Protestantism felt the heavy hand of the Inquisitors, whose broad powers included apprehension, detainment, minor punishments, torture, and death.

The invention of movable type and the production of books in the middle of the fifteenth century posed a new threat to the Catholic Church's monopoly on matters of faith and morals. Most versions of early Protestantism extolled personal interpretations of Holy Scripture, which was made more accessible to many more people by the invention of printing, which greatly reduced the price of books. The Catholic Church reacted by imposing many kinds of censorship of literature, science, and art.[16]

There is multicorrelation between the invention of printing, the emergence of Protestantism, and the ongoing development of science over this period. The best science of the day was often repressed by the Inquisition and the Index. The Roman Inquisition, in particular, targeted literature and science. In 1584 the Vatican placed the works of Giordano Bruno on the Index, specifically his book *On the Infinite Universe and World*—a work alleging intelligent life

16. Although the interrelationships between religion, science, and art are complex, the growth of science and the spirit of "rationalism" that accompanied it in the sixteenth century were often viewed as a challenge to the authority of the medieval church, which confronted this challenge by employing tools of censorship and repression. Even in the thirteenth and fourteenth centuries, the Catholic Church eyed suspiciously the reintroduction of classical philosophy and the reawakening of classical aesthetics as pagan reincarnations. The invention of the printing press presented new opportunities for science and art as well as for the Church (to advertise, for example). In astronomy, the clash between orthodox ideas and the new theories of Copernicus (1543) and later Galileo was seen by the Catholic Church as a direct challenge to its interpretation of Holy Scripture. Moreover, some of the most important art of the period, such as the work of Botticelli and Carravaggio, reflected the melding of the rationalist spirit with traditional Christianity (or possibly a pagan interpretation of it). Art historians remain divided over the meaning of the imagery of Sandro Botticelli's *Primavera* (c. 1475–1478). Ostensibly a secular work about springtime, its complex imagery has strongly suggested a pagan interpretation to some. During the late fifteenth century, as the horrors of the black death receded into the past, Catholicism tempered its spirit of hellfire and damnation. Bireley (1999, 18–19), for example, suggests that there is much debate over the proposition that fear infiltrated late medieval Christianity wherein, as some authors contend, "fear of death, judgment, the end of the world, and Satan, permeated late medieval religion, provoking anxiety about salvation and an agitated spirit." It is more likely that this feature of human life created a cyclical level of elasticity among the faithful. In short, the vagaries of human life were an "exogenous" feature of the "demand for assurances of eternal salvation." During less perilous times, as when the black death and other plagues waned during the later medieval period, demand became more elastic as death became less immediate, which allowed Christianity to be portrayed as a doctrine of God's mercy and love. Later, when Protestantism mounted a serious challenge to the Roman Catholic monopoly, repression and damnation returned to vogue. The emphasis on hell and damnation was, observationally, an attempt to make the demand for salvation through Catholic processes more inelastic. This changing spirit is also reflected in the art of the time, for example, Michelangelo's *Last Judgment* (1536–1541), undertaken as the initial wave of Reformation was sweeping over many parts of Europe.

beyond Earth and advocating the unification of *all* religions. Bruno was betrayed to the Holy Office in 1591; nine years later Pope Clement XIII had him burned at the stake in Rome. The writings of Sir Thomas More were also added to the Index for a time (ironically, he was later canonized a saint by the same Church). The infamous episode of Galileo and the Church illustrates another case of scientific repression.[17]

Outside Rome the Inquisition was focused on Protestantism at the borders of its influence. For example, near Trieste at the end of the sixteenth century the Inquisition aimed at suppressing Lutheranism. Some of the most virulent inquisitions against Protestants were in Spain. Ships crews, especially from England, were at extreme risk. According to Burman (1984, 201), "Henry Gottersum, the cook of the *Elizabeth* that anchored at Puerto de Santa Maria in 1574, was burned alive for admitting that he was a convinced Protestant." Inquisitors seized cargoes, confiscated books, and arrested sailors, who were sentenced to the Spanish galleys for religious crimes. The physical torture meted out by the Spanish Inquisition has been well documented. But the Inquisition employed mental torture as well and was global in its reach. Speaking of French practice, Foucault (1977, 40) notes that the torture imposed by the Inquisition was "a regulated practice, obeying a well-defined procedure. ... The first degree of torture was the sight of the instruments." The ensuing degrees of torture assumed an array of methods: the ordeal of water, the ordeal of fire, the strappado, the wheel, the rack and the stivaletto—all used to break alleged heretics. Torture, or even the prospect of torture, under a legal system that bestowed vast power on the Catholic Church, was a particularly vivid means of raising the cost of membership in a rival sect.

17. Burman (1984, 176) maintains that Galileo was punished less for his scientific statements than for his "offenses against the inquisition" and his challenge to orthodox Jesuit astronomers. Lest we forget, the Roman Inquisition was equally harsh in its treatment of artists. Venetian painter Paolo Veronese was hauled before the Roman Inquisition to defend his painting *Feast in the House of Levi* in which he had placed dogs, dwarfs, a fool, a parrot, men with German weapons, and a man with a bleeding nose. Because such details were not mentioned in the biblical story of Levi, the Church regarded these extraneous elements as heretical. To placate the inquisitors, Veronese reworked his canvas at his own expense, eliminating the offending elements. Burman (1984, 168) contends that according to Sir Anthony Blunt, a noted authority on medieval and Renaissance art, "It is typical of the methods of the Counter-Reformation that the Inquisition in this case was satisfied with certain changes of detail which left the painting exactly as worldly in feeling as it was before." Despite the infamy and persistent embarrassment to the Church of such episodes, the Roman Inquisition persisted in existence until 1965, when the Holy Office was formally abolished in favor of the Congregation for the Doctrines of the Faith.

Measures by the Incumbent Firm to Enhance Demand

To counter entry by rivals, incumbent firms often seek to boost demand for their product and ensure brand loyalty by advertising. Although the practice of advertising tends to follow the technology of the day, the concept is very old. There is evidence that the medieval Catholic Church recognized very early the necessity of advertising (and differentiating) its product. Early forms of advertising by the medieval Church were both informative and persuasive. Preaching and instruction could hardly avoid the kind of advertising designed to inculcate brand loyalty. This kind of action seemed even more imperative in the wake of the Protestant Reformation. On 17 June, 1546, the Council of Trent (5th:I:*24*) formalized its emphasis on advertising when it

> Ordained and decreed that in those churches in which there exists a prebend or a benefice with an obligation attached, or other income by whatever name it may be known, set aside for instructors in sacred theology, the bishops, archbishops, primates, and other ecclesiastical superiors of those localities compel, even by a reduction of their revenues, those who hold such prebend, benefice or income, to expound and interpret the Holy Scriptures, either personally if they are competent, otherwise by a competent substitute to be chosen by the bishops, archbishops, primates, or other superiors of those places.

At the same session the council (5th:II:*26*) exhorted "all bishops, archbishops, primates and all other prelates of the churches ... to preach the holy Gospel of Jesus Christ." The twenty-fourth session (1563) of the council likewise emphasized the preaching requirement of the clergy and compelled priests to "advertise" the efficacy of the sacraments (24th:IV:*195–96*; 24th:VII:*197–98*). Yet another way the medieval Catholic Church sought to clean up the retail side of its operations was by approving, supporting, and advertising new and (supposedly) less venal religious

orders, such as the Jesuits, an order that specialized in preaching and education.[18]

V. WHOLESALE ADJUSTMENTS BY THE MEDIEVAL CHURCH: VENALITY INTENSIFIED

The canons and decrees of the Council of Trent comprise an outward program of reform by the Roman Catholic Church in response to Protestant entry, but the extent to which the medieval church actually implemented its proclaimed reforms is a matter that is difficult to resolve with any historical finality. Whereas the Church's attempt to clean up its retail operations was transparent, its wholesale actions were much less so. Indeed, attempts to clean up the wholesale side of the Church were ineffective. To understand this failure at the wholesale level, we must first investigate the industrial organization of the medieval Catholic Church.

Two important changes in church organization occurred prior to the Protestant Reformation, and these changes are responsible in large measure for the failure of the Counter-Reformation. The first involved the centrality and primacy of the papacy, which shaped the medieval church's political and ecclesiastic policy. The second involved the progressive "Italianization" of the College of Cardinals, the curia, and the papacy itself, which eventually resulted in an Italian monopoly of the Vatican.

The Threat of the Conciliar Form of Church Governance

The monopoly structure of the papacy, which reached a high point in the twelfth and thirteenth centuries, faced repeated challenges thereafter.[19] In the Middle Ages the Holy See was an important city-state in world politics as well as a dominant-firm, global supplier of religious services. On the religious front, as we have seen, the Catholic Church confronted an ongoing spirit of religious reform throughout the medieval period. On the political front, it was wracked by the Great Schism of 1378, which led to competing claims on the papacy by French and Italian prelates and the relocation of the papacy to Avignon throughout most of the fourteenth century. According to Hay (1977, 27), "The effects of the Schism were directly proportional to the structure of government and in Italy government in many areas was exceedingly divided, thus encouraging the popes to try to exercise their jurisdiction in ways that would be an embarrassment to their rivals." For example, Hay (1977, 26) relates how papal actions in France or Spain were intertwined with Italian interests, "as when Calixtus III [1455–1458] bargained Italian against Spanish bishropics and abbeys in an effort to cope with the hungry members of the Aragonese house and the appetites, only slightly less ravenous, of his own Borgia relatives." Only when the rift was healed did the papacy return to Rome. The Great Schism had two prominent effects on the medieval Catholic Church. On the one hand it reawakened sentiment for the conciliar form of governance, and on the other hand, it ushered in a system of bribes and side payments by popes intent on maintaining power.

Reestablishment of the conciliar form of church governance—which had been the hallmark of the first millenium of church history—therefore received added impetus from internal strife within the medieval Church. Before the looming threat of Protestantism appeared, religious reform movements emanated, in the main, from Church councils. Indeed, the Council of Constance (1414), ended the Great Schism by reasserting the doctrine of

18. According to Foss (1969, 157):

> The results of the Council of Trent were very pleasing, and very important, to the Jesuits. The universality of the Church and the primacy of the pope had been stressed. The need for the Church to become active, preaching and teaching, was acknowledged. The Jesuits' place in the Catholic structure, as noteworthy preachers and the possessors of the finest educational system in Europe, was secured.

19. Hill (1970, 145 ff.) expresses the view of most historians that papal dominance reached its apex under Innocent III (1198–1216), when Rome became the center of the legal and religious machinery of the Church, excising dominion over clergy and (often) dictating the policies of lay rulers. The nadir of papal influence came about 100 years later. Pressing his power, Innocent III's Fourth Lateran Council (1215) denied the authority of monarchs and other lay rulers to tax the clergy. But the economic strains of war were too much for most monarchs. By 1296 France and England were at war, both taxing church properties for war finance. Boniface VIII issued a bull (*Clericis Laicos*) that denied lay rulers absolute authority in their own kingdoms and cut off their access to Church funds via taxation. When Phillip IV of France resisted, Boniface planned to issue a decree of excommunication against him, but French mercenaries led a small army against the pope, causing him to capitulate (Boniface died a few weeks after, and two later popes renounced their authority over Phillip and France). Tierney (1964, 172–90) corroborates these issues and presents documents that accompany the dispute.

conciliar supremacy.[20] However, sitting popes were not likely to give up their authority so easily, and in the end, the doctrine that popes were subject to properly convoked general Church councils received little more than lip service. Despite a decree by the Council of Constance that Church councils be called at regular intervals, Pope Martin V (1417–1431), as well as his successors, did everything they could to discourage them.[21] A conciliar form of church governance would have distributed ecclesiastic authority more evenly geographically and the power of the council would have been anterior to that of the pope, a prospect no papal monopolist or aspiring papal monopolist could be expected to embrace.[22]

Papal Bribes

Many different side payments were offered by the papacy to avoid calling councils that might weaken papal control over doctrine and Church revenues. Before the Reformation these side payments performed the dual functions of keeping the conciliarists at bay and forestalling defections by non-Italian nations, which favored conciliarism. As Bireley (1999, 15) points out:

> Rulers, especially the French kings, used the threat of a council to extract concessions from the papacy. Louis XII called a council for Pisa in 1511 in an attempt to counter Pope Julius II's policy towards France in Italy, but the pope outmanoeuvred him. Pope Leo X, then, in the concordat of Bologna of 1516, yielded to Francis I the predominant voice in nearly all the major ecclesiastical appointments in the realm in exchange, in part, for the king's disavowal of conciliarism. Starting with Nicholas V (1447–55), the popes concentrated increasingly on their role as rulers of an Italian state and were themselves elected from aristocratic Italian families.

Clerical appointments were a common concession to France, England, and Germany to keep them in the fold.[23] Crowder (1977, 23) notes that such side payments were often arranged by "concordats" with nations and rulers:

> In a series of concordats the reforms which met their own demands were agreed with each of the French, English and German nations. All were promised better representation among the cardinals. The French were given concessions chiefly from the burden of papal taxation. The English obtained the promise of papal restraint in grants, to monasteries, of exemption from Episcopal jurisdiction and of the appropriation of parish churches. The German concordat had many of the features of the other two, but claimed more explicitly a better representation in a reformed curia than Germans had enjoyed in the past.

As the Protestant Reformation demonstrated, bribes of this sort did not prevent breakaways. There is evidence that the papacy was making higher side payments to some countries as time went on, right up to Protestant entry. Thus in the late fifteenth and early sixteenth centuries, the papacy did not intervene while England gradually converted papal taxation to royal taxation. Scarisbrick (1960, 50) calculated that the average tax collections from clerical operations in England between 1486 and 1534 resulted in £4,816 per year paid to Rome and £12,500 per year to the king. He concluded that "before the breach, Henry VII and his son were receiving well over two and half times the annual average of money paid to Rome."

In many respects, the successes of the Protestant Reformation may be traced to a failure of side payments to achieve their desired effect in certain nations, such as England, Germany, and parts of Switzerland and Scotland. Outside Italy, the pope's main interest was to suppress heresy, to keep rebellious nations within the fold of Catholicism, and, of course, to collect rents from downstream Church organizations

20. Hay (1977, 32) maintains that "the crisis of 1378 was a striking instance of the condition for which conciliarism . . . was a drastic remedy. The senior clergy who in 1414 faced the scandal of three popes accepted the notion that Christ's purposes were reflected in the whole church as represented in a council."

21. The decree *Frequens*, promulgated in 1417 at the Council of Constance (1414–1418) is replicated in Crowder (1977, 128–29).

22. Tierney (1955, 1) identifies two major problems relating to the limits and character of ecclesiastical authority over the period—one pertaining to the nature of authority between the papacy and national governments and another dealing with the internal governance of the Church. These problems were interrelated, for "the partisans of successive princes—of Frederick II, Philip the Fair, Lewis the Vabarian—all found it expedient to couple their claims on behalf of the secular power with appeals to the College of Cardinals or the General Council as embodying an authority superior to that of any individual Pope within the Church."

23. According to Crowder (1977, 20): "By the time of the Great Schism the more influential monarchies of Christendom had established a practical understanding with the papacy for a rough and ready division of their conflicting interests of patronage. Nevertheless this was frequently achieved by contention and adjudication."

TABLE 2
Italianization of the Papacy before the Council of Trent

Date of Conclave	Number of Italian Cardinals Present	Others	Percent of Italians	Election of
1431	6	6	50	Eugenius IV
1447	11	7	61	Nicholas V
1455	8	7	53	Calixtus III
1458	9	9	50	Pius II
1464	11	8	58	Paul II
1471	6	2	75	Sixtus IV
1484	21	4	84	Innocent VIII
1492	22	1	96	Alexander VI
1503	27	11	71	Julius II
1513	18	7	72	Leo X
1522	36	3	92	Adrian VI
1523	34	5	87	Clement VI

Source: Adapted from Hay (1977, 38).

in as many countries as possible.[24] These concerns set the stage for the Italianization and Romanization of the Church in an effort to protect the papal monopoly and its declining revenues.[25]

The Roman-Italian Response

The fifteenth century, which witnessed the dominance of French clergy on the one hand, and the stirrings of heretical activity on the other, was pivotal. During this time the Vatican's response to internal and external events was to circle the wagons around Italy and, within Italy, around Rome. This process was under way when Luther first mounted his threat against Catholicism and was still in evidence 30 years later when the Council of Trent began.[26] Table 2 shows the extent of Italian dominance of papal conclaves (convocations to elect a pope) between 1431 and 1523. It can be seen that the Italianization of the Vatican was proceeding a century before Luther. As the papacy came increasingly under Italian control, it sought to maintain dominance not only by appointing a disproportionate number of Italians to the College of Cardinals but also by increasing the number of cardinals (by two-thirds between 1450 and 1500). The entire field of (13) popes elected after Martin V, the first post–Great Schism pope, was drawn from only nine Italian families. Simultaneously, the Curia, which also expanded over this period, was increasingly made up of Italians.[27]

Despite the outward appearance of reform given by the Council of Trent, the Italian monopoly in Rome was reluctant to curtail its economic interests. Hallman (1985) gives numerous examples of intensified rent-seeking by the Princes of the Church in the sixteenth century. These activities included nepotism (use of sacred office to aggrandize one's family), simony (the purchase of sacred office), and other financial abuses, such as pluralism of benefices (possession of more than one sacred office), and alienation of property by last will and testament.

Rent-Seeking by the Upstream Church after the Council of Trent

By the time the Council of Trent was invoked, the evolution of the medieval Catholic Church from the quasi-conciliar forms of the thirteenth and fourteenth centuries to a Roman-centered, Italian-dominated papal monopoly was virtually complete. Thus, economic as well as spiritual power was concentrated in the hands of a tightly organized, geopolitically homogeneous circle of prelates in Rome. Despite the fact that the financial abuses of this body constituted the proximate cause of Luther's (and others') protests, the members of this circle were naturally eager to

24. As Hay (1977, 33) asserts: "Charles VII or Louis XI of France might huff and puff, but French bishops and abbots [nominated by the monarchs themselves] paid their dues, however belatedly, and so did English prelates until the break with Rome."

25. The papacy and its bureaucracy needed revenues to fight wars (e.g., the French incursions into Italy) and to support massive building projects, such as the construction of St. Peter's Basilica.

26. Foss (1969, 156) claims that at the Council of Trent "the Italians [were] so numerous that they were accused of bringing the Holy Spirit in their baggage train."

27. Hay (1977, 42–43) also reports the fact that, despite the "contraction of business" over this period, the size of the Curia grew to be roughly between 450 and 500 persons, "of which two-thirds were in the main departments of the camera, the chancery and the penitentiary and the rota, the rest being in the *familia* (household) and the bodyguard, police and so forth." The trend toward Italianization begun in the fifteenth century has continued to this day. Membership in the College of Cardinals, the governing body of the church, increased progressively to a maximum of 70 in 1586 (where it remained until increased further in the 1960s by Pope Paul VI). With the exception of the current pontiff, John Paul II, all popes over the half-millennium since 1526 have been Italian. The only two non-Italians of the preceding century were Alexander VI (1492–1503), a Catalan, and Adrian VI (1522–1526), a Frenchman.

protect their economic interests, which centered on control of Church property and revenues. One common abuse was nepotism. The official declarations of the Council of Trent took aim at some of the grossest abuses. A major decree (25th:I:*232*) prohibited bishops and cardinals from "attempt[s] to enrich their relations or domestics from the revenues of the Church," and further forbade them from giving ecclesiastical properties, "which are from God," to relatives. However, such measures appear to be mere window dressing.

According to Hallman (1985), not only did the papal monopoly not follow the admonitions of Trent, the post-Trent abuses flourished beyond previous levels.

Nepotism. Popes of the sixteenth century seized many opportunities to support family and friends from the papal treasury. To cite merely the most egregious instance, in a mere six-year pontificate, Pius IV distributed 334,000 gold *scudi* from the papal treasury to members of his family, for various purposes unrelated to the provision of church services.[28] According to Hallman (1985, 157), such practices persisted into the seventeenth century. Bireley (1999, 65) notes that "the papacy took on features typical of the seventeenth-century European court, so exhibiting its consonance with the times. Despite attempts of other popes to do so, only at the end of the century, in 1692, did Innocent XII take effective measures against nepotism." Although these practices were (weakly) defended by assertions that Italians were acting as the "good signore" by taking care of relatives, there is small doubt that these practices were at the expense of the church.

Simony. Popes and cardinals also sold secular and "honorary" offices with new vigor after the Council of Trent. A popular device for raising money through the sale of offices involved the college of knights, a papal creation that offered membership for a high admission fee. Hallman (1985, 131) recounts that Pius IV created the largest college of all, the *Cavalieri Pii*, "in 1560, with a total of 535 offices [sold] at 500 *scudi* of gold each." The buyer received an immediate elevation in social rank. Often the members who bought into these groups were Italian bankers who were well connected with the Vatican. The interlocking of economic and spiritual power was so concentrated that by the end of the sixteenth century a mere nine Italian banking families dominated the College of Cardinals. Expanding the political and economic realm of the Papal States also required governors, administrators, and soldiers—thereby providing more patronage opportunities to the pope. Cardinals divided these offices up as so much booty, and according to Hallman (1985, 139), "by 1550 it was customary that each cardinal should possess at least one" which could be sold to the highest bidder.

Other Financial Abuses. A major element of Luther's attack on the church focused on "property crimes"—that is, *personal* aggrandizement by the alienation of Church property and wealth to individual benefit. In short, Luther attacked the Church as an instrument of rent-seeking. But although some prelates recognized the problems within the Church and supported reforms that promised to reverse the swelling tide of protest, the "property crimes" denounced by reformers continued unabated after Protestant entry occurred.[29] The cardinals ignored exhortations by the Council of Trent against long-term rentals of church property. Hallman (1985, 79) certified that in 1616, "twenty four of the thirty abbeys belonging to Cardinal Scipione Borghese were rented out," and by the end of the century long-term rentals and other

28. Between 1561 and 1565 Pius IV gave 120,000 gold *scudi* to four nieces (mainly for dowries); 22,000 *scudi* to his nephews; 10,000 *scudi* to his brother; and more than 100,000 *scudi* to other relatives. On his deathbed in 1565 he gave 100,000 gold *scudi* to his nephew, Count Annibale d'Altemps, to whom he had also granted an annulment of marriage so that d'Altemps could marry Pius's niece, 13-year-old Ortensia Borromeo. (The *scudo* was first struck as a gold coin by several Italian states in the early sixteenth century. At 3.35 grams, it was slightly smaller than the standard gold trade coin of the period, the Venetian ducat (3.50 grams). Given today's market price of gold, the value of the *scudo* would be approximately US$43, which means that the grants were sizable. *Scudo* comes from the same root as the French *ecu*, named for the shield that appeared on most of the coin types, and was first issued in Lucca and Naples when they were under French occupation.) It is uncertain whether d'Altemps and his young bride were blood-related, but the possibility raises numerous questions about dual standards for the privileged versus the faithful.

29. Hallman (1985, 1) points out that the abuses Luther cited in his *Address to the Nobility of the German Nation* of 1520 were practically the same as those identified by Pope Paul III's reform commission of 1537.

alienations in return for present income were common. One way of alienating church property was by last will and testament. In such instances, according to Hallman (1985, 94):

> The money disappeared permanently into the coffers of private families ... as luxuries increased in Rome, so too did the sums of money churchmen were allowed to bequeath. ... The incomes of our ecclesiastical *rentiers* were being diverted into the hands of lay *rentiers*, who were transforming the social fabric of Italy by buying their way into the nobility. ... As for last wills and testaments, they, like rental agreements, pensions, and other practices, became so customary that they were sanctioned by canon law. The privilege of bequeathing church money ... now accompanies the red hat as a matter of course.

Another common abuse ostensibly outlawed by the Council of Trent was the holding of *multiple* benefices by a single bishop or cardinal.[30] The possession of multiple benefices meant that cardinals and bishops were in effect always absent from some of their spiritual charges, because they could not be in residence simultaneously in more than one place. Once more, the admonitions of Trent were disregarded. Calculating the incidence of multiple benefices held by cardinals and bishops before Trent, Hallman (1985, 43) found that approximately 90% of the prelates were double-dipping, or worse. Cardinal Farnese, vice chancellor of the Roman Church during the convocation of the Council of Trent, for example, held no fewer than 64 separate benefices simultaneously. Comparable data during the post-Trent period are more difficult to come by, but Hallman concluded that "the years of reform did nothing to alter the practice of gathering together packages of benefices and conferring them as a whole .... If anything this practice probably increased with the years. And when vacancies were in short supply 'expectative graces' were granted."[31]

The weight of historical research on the subject demonstrates that the wholesale side of the medieval Church not only resisted actual and effective reform in the wake of the Protestant Reformation; it succeeded in conducting "business as usual," shielded from view by the cloak of secrecy that enshrouded the Vatican. Patronage, nepotism, and simony all intensified, made possible by the "remonopolization" of the Roman-Italian Church after the Great Schism of the fourteenth century. Although some in the Catholic Church recognized the need for genuine reforms on the wholesale side, the serpentine Roman bureaucracy, entrenched in its power for at least a century before the Council of Trent, defied actual reform at the wholesale level of church organization.

VI. CONCLUSION

Economic analysis sheds light on two critical episodes in the history of Western civilization. In economic context, the Protestant Reformation was an incursion into an established market by a rival firm seeking to gain market share from an incumbent monopoly. In this case, economic opportunity arose due to perceived abuses at the retail and wholesale levels of the Catholic Church. In the same context, the Counter-Reformation was the response of an incumbent monopoly to market entry by a rival firm. Contemporary firms typically respond to rival entry by corporate reorganization, that is, by addressing issues of corporate governance—in sum, by rewriting their corporate charter.

A medieval parallel can be found in actions taken by the Council of Trent, which provide historians with a written record of the Catholic Church's official reaction to the threat of entry and is therefore vital to understanding the achievements and failures of the Counter-Reformation. This record shows that the bulk of the reforms instituted by the council involved corporate governance. Outward reforms of the Council of Trent permitted at least the advertised cleaning up of abuses at the retail level of Church organization,[32] actions

30. The secular meaning of *benefice* is a feudal estate in land. In ecclesiastical parlance, it is a form of preferment (e.g., endowment) that provides a living for a prelate. By holding multiple benefices, these high clerics were opportunistically usurping resources of the Church to their own use.

31. These expectancies were papal grants of benefices that were already occupied. These were granted in anticipation of the death of the holder. Hence, a futures market was effectively established in benefices.

32. There is no reason to believe that certain retail products of the Church that dealt with social services did not continue and flourish before and after the Protestant reformation and the Catholic Counter-Reformation. Geremek (1994) and Pullen (1971) show that between the twelfth and fourteenth centuries the Catholic Church's activities provided models for Protestant charitable organizations. The Council of Trent (7th:XV:*61*) directed Church officials to carefully monitor the management practices of hospital administrators.

apparently sufficient to placate some customers, maintain regional memberships in the Catholic Church, and slow down or prevent defections from Roman Catholicism. Hence our positive conclusion is that the Catholic Church behaved according to the dictates of economic theory—it took on the defensive posture of a firm fighting to survive in the face of new competition, with predictable results. Our normative conclusion is that the Council of Trent failed as a reorganization plan. Emphasizing form over substance, the internal organization of the Church—the distribution of powers and property rights among the governing body of pope and cardinals—was left virtually untouched by the Counter-Reformation, so as to keep economic rents flowing as before; demonstrating that entrenched economic interests are powerful inducements to behavior, even in spiritual institutions.

Both before and after the Protestant Reformation the Roman papal apparatus found it necessary to make side payments to Church and state officials in other countries to keep them in the fold. Such actions may have encouraged the Protestant Reformation, in which case market entry may be regarded as a consequence of the failure of side payments to keep certain countries beholden to the Italian cartel. During the Counter-Reformation the Catholic Church's attempt to restructure side payments to keep national adherents together met with limited success. Financial and other concessions made to French monarchs (such as Francis II) and aristocrats in several nations appear to have worked, but similar concessions in England and Germany had little effect.

In the final analysis, the Catholic Church's response to Protestantism, in practice as well as appearance, failed to Clean up the wholesale side of Church operations or to broaden participation in the Catholic version of Christian religion. The sins of the fathers persisted in the wake of the Council of Trent. Blatant venality and rampant abuses of Church property continued at ever-increasing levels in the sixteenth century. A part—indeed, perhaps a large part—of the failure of the Counter-Reformation to reestablish a universal church must be placed at the door of the organizational defects that allowed such venality to continue.

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